

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 59th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **CHAIRMAN JOHN SINRUD**, on February 4, 2005 at
8:00 A.M., in Room 317-B Capitol.

ROLL CALL

Members Present:

Rep. John Sinrud, Chairman (R)
Sen. Lane L. Larson, Vice Chairman (D)
Sen. Mike Cooney (D)
Sen. Rick Laible (R)
Rep. Jon C. Sesso (D)
Sen. Corey Stapleton (R)
Rep. Janna Taylor (R)

Members Excused: Rep. Rosalie (Rosie) Buzzas (D)

Members Absent: None.

Staff Present: Marilyn Daumiller, Legislative Branch
Greg DeWitt, Legislative Branch
Jamie Mickelson, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion
are paraphrased and condensed.

Committee Business Summary:

Hearing & Date Posted: Hearing on the Department of Revenue
Executive Action:

HEARING

DEPARTMENT OF REVENUE

CHAIRMAN SINRUD out at 8:05 A.M.

SEN. LARSON asked Dan Bucks, Director of the Department of Revenue, to start his presentation to the committee when he was ready.

Mr. Bucks thanked the committee for the discussion the previous day. He requested a few days to review the issue surrounding the contract with the collection agencies.

Mr. Bucks stated that he wants to find an appropriate way to do collection, especially reviewing the complaints surrounding this issue.

{Tape: 1; Side: A; Approx. Time Counter: 0 - 7.7}

SEN. STAPLETON stated that he does not like the idea of the Department of Revenue taking money out of the general fund for the collection agency contracting process.

Mr. Bucks stated that there is a finding in the legislative audit of the debt collection contracting process. He stated that he does not like most of what he has seen in the collection agency contract. He requested the committee to provide information to his department regarding complaints from the collection agencies.

SEN. LAIBLE referred to Exhibit 5 from 2/3/05. He asked if the \$21,118,000 in FY 2004 is total revenue from the taxes audited, or additional revenue. **Gene Walborn, Department of Revenue**, stated that it is additional revenue.

SEN. LAIBLE asked if the state's revenue has gone up, and how it relates to taxes. **Mr. Bucks** stated that the underlying growth rate of revenue is based on a reduction in tax rates.

{Tape: 1; Side: A; Approx. Time Counter: 7.7 - 15.7}

PROPERTY TAX Page A-170

Mr. Bucks reviewed the budget highlights for the Property Assessment Division. He stated that for the biennium, the general fund budget would increase through adjustments totaling nearly 7.3 million over the base for:

- Development of a new property tax system for \$5.5 million
- Development of an agriculture and forest land classification and valuation system for \$1.4 million
- Increases in field office rent payments to local governments and private landlords for \$777,000
- Statewide FTE reduction would eliminate 3.15 FTE by the end of the biennium and reduce general fund by \$287,622.

Mr. Bucks stated that the main computer system and the agricultural land issue are both very serious. He commented that there are problems that exist which place the property tax system at risk. He informed the committee that there are potential constitutional issues that the Department of Revenue is dealing with. He advised the committee that there are benefits to having the entire state on one computer system.

Mr. Bucks stated that the new property tax system will replace six different systems. He informed the committee that there are two problems that the department has. He claimed that one computer program is obsolete and it is in jeopardy of not being supported by the vendor. The second problem is that the CAMAS System interacts with six other systems, the programs do not share a database, so they cannot easily relate with one another. He stated that having six different computer systems is a huge inefficiency.

{Tape: 1; Side: A; Approx. Time Counter: 15.7 - 21}

REP. SESSO asked about the commitment of the Department of Revenue to follow through with this computer system, and if the system will be fully integrated to the Geographic Information System (GIS). **Randy Wilke, Department of Revenue**, stated that the Department of Revenue is completely committed and that the systems will be fully integrated.

REP. SESSO asked if the department will help the locals switch over when the department switches the computer systems at the state level. **Mr. Wilke** stated that there will not be that big of a change.

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REP. SESSO stated that if the department makes the change in computer systems, it needs to make sure the appropriation is enough to integrate it completely.

{Tape: 1; Side: A; Approx. Time Counter: 21 - 28.5}

Dolores Cooney, Department of Revenue, stated that moving from six different databases to one database will be beneficial for the department.

REP. SESSO stated that there has always been a little bit of trouble with the department and downloads. He commented that he hopes that this computer system is a bit more time efficient than the last one. He stated that he is very supportive of the entire system.

SEN. LAIBLE asked Mr. Bucks if the system will be in place by January 1, 2009.

Mr. Bucks stated that the system needs to be in place by January 1, 2007.

SEN. LAIBLE asked if this system is being used in neighboring states. **Mr. Bucks** explained that he has not selected the system yet, because they are not funded to purchase a system. He stated that he has done some research on different off-the-shelf systems, however he has not chosen one.

SEN. LAIBLE asked if the computer system will include all properties. **Mr. Bucks** stated that the computer system already does.

{Tape: 1; Side: B; Approx. Time Counter: 0 - 9}

DP 805 AGRICULTURAL FOREST LAND CLASSIFICATION SYSTEM

Page A-173

Mr. Bucks gave a brief overview of the handouts "Pilot Projects Misclassified Agricultural Use Classifications," and "Estimate for an Off-The-Shelf Property Tax System."

[EXHIBIT\(jgh28a01\)](#)

[EXHIBIT\(jgh28a02\)](#)

Mr. Bucks stated that the department is required to value all land and property value in the state. He stated that there have been updates, but no systematic reviews. He stated that the department request was originally \$1.4 million and that it is now \$2.8 million. He asked the committee to turn to Page 14 of Exhibit #5 from 2/3/05. He stated that the original proposal was for 12 FTE and now in total the request is for 24 FTE.

Mr. Bucks stated that agricultural land was classified historically by five subdivisions:

- 1) Grazing
- 2) Summer Fallow
- 3) Dryland Hay
- 4) Irrigated Land
- 5) Continuously Cropped

Mr. Bucks stated that the department is 30 to 40 years behind in property assessment. He informed the committee that there have been significant advances in this area that makes it easier to assess property value.

SEN. STAPLETON asked why his department is concerned about property assessment. **Mr. Bucks** stated that property value and groupings have changed. He stated that a test was done in four counties. He informed **SEN. STAPLETON** that there are dramatic changes in productivity.

SEN. STAPLETON asked again why the department cares about property assessment.

Mr. Bucks stated that the department cares, because it does result in a proper evaluation in productivity under the law.

SEN. STAPLETON stated that he does not understand who benefits from spending the \$2.8 million on FTE if there is no revenue being produced. **Mr. Bucks** stated that because of the improper classifications of land, some people are being under-taxed and some people are being over-taxed.

SEN. STAPLETON stated that he believes that this DP will cause much confusion and hardship with farmers and ranchers across the state because of an increase in taxes.

Mr. Bucks stated that the department will have estimates of changes in values of the five categories of land by 2007, and the legislature will have the opportunity to modify the tax classes.

SEN. STAPLETON asked why this hasn't been done since the Kennedy Administration, and why it's being done now.

Mr. Bucks stated that in previous years it was much more expensive to classify land, but with recent technology it is a more affordable process. He informed the committee that the longer the state and local government go without classifying land, the greater the risk of lawsuits.

{Tape: 1; Side: B; Approx. Time Counter: 9 - 30}

SEN. STAPLETON asked Mr. Bucks if he was implying that if no action is taken on this then there could be potential lawsuits.

Mr. Bucks stated that lawsuits are a strong possibility.

Greg DeWitt, LFD, stated that there is a change in the executive budget; it has been doubled. He informed the committee that HB 72 proposed by the department brings funds into the department; however, the department is backing off on the bill. He referenced the directions from both the House Appropriations Committee and the Senate Finance Committee directing subcommittees to take no action on a decision package if there is a bill required to implement it.

REP. TAYLOR stated that the problem with classifying land is that it can be registered for one thing and be used for another for tax purposes. She asked if the land classification system and yields are the county's responsibilities. **Mr. Bucks** stated that they are not the county's responsibilities and that the counties get the information from the state.

REP. TAYLOR asked Mr. Bucks why there hasn't been anyone sent out to determine the difference between grazing and farmland. **Mr. Bucks** stated that the funding for the staff was denied during the last session.

REP. TAYLOR stated that it is difficult to believe that there is a threat of a lawsuit on the state.

Mr. Bucks explained that if the market value goes up on a house, the owner would say, "You updated my house, but not my farm land." The constitution states that there needs to be uniformity between the house and land value.

{Tape: 2; Side: A; Approx. Time Counter: 0 - 16}

SEN. LAIBLE stated that he sees that agricultural land is taxed based on productivity value. He asked why one would want to combine all four of the land uses into one use.

Mr. Bucks stated that the original proposal of \$1.4 million to combine all of the land classifications into one use was opposed. The \$2.8 million has to do the job according to historic classification.

SEN. LAIBLE stated that it doesn't seem like the land classification process should cost \$2.8 million.

Mr. Wilke stated that the department wants to create a digitized description. He stated that the department has to contract all outside procedures and format the information, and this is why the cost is \$2.8 million.

SEN. LAIBLE asked why the department doesn't send out a letter that asks people how much land they have and what it is used for.

Mr. Bucks stated that he believes that this is being done for land below 165 acres. He stated that there has to be a determination of the land. The owner needs to prove that the land is being used for the purpose stated.

SEN. LAIBLE asked if there have actually been any lawsuits.

Mr. Bucks stated that there have been no lawsuits. He commented that if land isn't classified, it is likely there will be a lawsuit.

{Tape: 2; Side: A; Approx. Time Counter: 16 - 28}

SEN. COONEY explained that if the taxes aren't fair and predictable, then the state needs to do the assessment. He urged the committee to let the state do their job. He commented that he does not want higher taxes, but the department must be allowed to do their job.

REP. TAYLOR remarked that when people look at taxation values, they become frightened.

SEN. COONEY contended that the department must have the funding to do the job that they need to do, or these requirements should be removed.

Mr. Bucks interjected that the department has a requirement to do their job and that it is very important for the department to follow through with their requirements.

{Tape: 2; Side: B; Approx. Time Counter: 0 - 5}

CHAIRMAN SINRUD in at 9:50 A.M.

Mr. Bucks commented that the classification program would be a four-year project with the agricultural community.

CHAIRMAN SINRUD stated that he worked with many people who sold their land in 20-acre lots. He stated that there was a constituent who bought a 19.6-acre parcel and got taxed at 100% residential value. He informed the committee that his neighbor had a 20.2-acre lot and was taxed at the rate of one acre for the house and 19 acres for agriculture. He asked why the state picked arbitrary values. He contended that individuals are coming into the state buying land, not using it for agricultural productivity, but making a profit off of it by selling it as residential land. He informed the committee that these buyers are paying taxes for an agriculturally productive piece of land while using it as residential land.

Mr. Bucks expressed that he cannot answer CHAIRMAN SINRUD'S question about arbitrary values. He informed the committee that parcels below 20 acres are treated in one manner, parcels between 20-160 acres are treated in yet another manner, and parcels over 160 acres are treated in yet another manner.

Mr. Bucks stated that this land is controlled by statute and he doesn't know if anyone knows the history of the statutes.

CHAIRMAN SINRUD stated that his county has passed over \$20 million in bonds for "open space." He attested that he does not agree with that. He asked if Mr. Bucks would take a look at the open space bond and the removal of potential growth areas on a residential tax role.

Mr. Wilke clarified that when a landowner is consulted about land use, they should be taxed according to the way the land is being used.

{Tape: 2; Side: B; Approx. Time Counter: 5 - 18}

SEN. COONEY asked how other states deal with land classification, and whether other have states fallen behind in the classification process.

Mr. Bucks commented that he recently visited with the director of the Department of Revenue in Kansas and that department has conferred with other states in the past decade.

Mr. Wilke informed the committee that seeing how other states do it will help our department to go through the land classification process.

Mr. Bucks stated that he has a high level of sensitivity on the impacts of agriculture on the state.

{Tape: 2; Side: B; Approx. Time Counter: 18 - 23}

DP 702 FUNDING FEDERAL ROYALTY COSTS AT FY 2004 LEVEL
Page A-169

Mr. Wilke stated that the decision package is for an increase of \$61,040 federal special revenue for the biennium was based on FY 2002 program expenditures.

CHAIRMAN SINRUD asked what the salary would be of each auditor.

Mr. Wilke stated \$30,000.

{Tape: 2; Side: B; Approx. Time Counter: 23 - 29}

(recording is unavailable for Tape 3)

DP 801 FIELD OFFICE RENT Page A-171

Mr. Bucks gave a presentation on the handout "Field Office Rent-County Office Buildings."

EXHIBIT(jgh28a03)

Mr. Bucks clarified that DP 801 is an increase of \$770,619 out of general funds for the biennium. This fund increase is for rent payments for office space occupied by department personnel outside of Helena. For personnel working outside of Helena, the department pays rent for county building office space and private office space where county space is not available.

CHAIRMAN SINRUD asked if the figure \$770,619 is based upon the maximum rate.

Mr. DeWitt stated that the \$770,000 figure anticipates the raise in rates for the General Service Division of the Department of Administration.

REP. SESSO stated that with the increase in rent per square foot, the department will need an increase in funding of \$335,000 each year.

CHAIRMAN SINRUD requested a spreadsheet that breaks down the rent by counties.

{Tape: 3; Side: A; Approx. Time Counter: 0 - 4}

DP 802 REQUEST FOR LEASED VEHICLES Page A-172

Mr. Bucks stated that this decision package is an increase of \$262,458 in general fund for the biennium. He informed the committee that this money will be used to replace department-owned vehicles with State Motor Pool leased vehicles. He stated that the department will lease all but 11 vehicles.

SEN. LAIBLE asked why the department is only keeping eleven vehicles. **Mr. Bucks** stated that 11 of the vehicles are still in safe operating condition, and a realistic budget is a priority.
{Tape: 3; Side: A; Approx. Time Counter: 4 - 8}

DP 603 REDUCTIONS IN SEASONAL RETURNS PROCESSING STAFF
Page A-162

Mr. Bucks clarified that a reduction of \$238,050 general fund for the biennium is recommended to reduce personal services funding for seasonal help in the program.

Mr. DeWitt commented that on Page A-164 it looks like the department will lose more revenue than it will gain. He stated that the department is saving \$245,450 by cutting seasonal employees, but the department will lose an estimated \$313,700 by not processing taxes and having to pay interest.

SEN. COONEY expressed that the staff reduction concerned him, because when he was the Secretary of State they had corporate filing.

Mr. Bucks stated that the department has been given a big challenge, and that they have a big staff. He stated that it is his goal to encourage more electronic filing of taxes.
{Tape: 3; Side: A; Approx. Time Counter: 8 - 15}

LANGUAGE ISSUES Page A-153

Lisa Smith, Department of Revenue, stated that the budget analyst with the Department of Revenue stated that the funding allowed the Department of Administration to pay for IRIS. She informed the committee that \$4 million is a conservative request and it is a good cap. She pointed out on the bottom of A-153 a request to allow the department to continue the computer replacement program and to finish phase one and two.

Mr. DeWitt stated that the Department of Revenue was going to withdraw the duplicate request for the language appropriation on

the top of Page A-153 and lower its estimate to \$4 million. He commented that through discussion with the budget office, the Department of Administration should ask for the \$4 million.

REP. TAYLOR asked how many phases IRIS has. **Mr. Bucks** stated that IRIS has only two phases.

REP. SESSO asked if the department is only asking for the change that they have made in the language on the bottom of page A-153.

Mrs. Smith stated, "Yes."

{Tape: 3; Side: A; Approx. Time Counter: 15 - 22}

LANGUAGE ISSUES Page A-154

Mr. DeWitt stated that there is a mistake on the bottom of A-153. He informed the committee that the 11(2) should be changed to 12(1).

LANGUAGE ISSUES Page A-159

Mrs. Smith stated that on Page A-159 there is a language appropriation for liquor distribution. She stated that the state will only buy \$78 million of liquor each year.

Shawna Helfert, Department of Revenue, stated that in previous legislative sessions that the department was hoping for some liquor license laws.

REP. SESSO asked why liquor stores aren't open on holidays. **Mrs. Helfert** stated that it is the way it has always been.

REP. SINRUD asked Mrs. Helfert why there are there more liquor licenses than there are supposed to be per population, and inquired as to how they are counted. Mrs. Helfert directed the question to Mr. Peterson. **Mr. Peterson** stated when that happens that there is an over-assumption in population.

{Tape: 3; Side: A; Approx. Time Counter: 22 - 30}

LANGUAGE ISSUES Page A-164

Mr. Bucks stated that the Governor recommends that the department be appropriated up to \$475,000 general fund for the 2007 biennium. He stated that funds are restricted for the payment of commission expenses charged by the bad debt collection agency.

REP. SESSO asked Mr. Bucks if the department has a specific office which deals with tax disputes. **Mr. Bucks** stated that there is a specific office that does deal with tax disputes.

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REP. SESSO asked if the six people in that office were attorneys.
Mr. Bucks stated that the six people were not attorneys, but that there is a hearing examiner in that office.

{Tape: 3; Side: B; Approx. Time Counter: 0 - 18}

Mr. Bucks stated that the department has 41 vacant positions and eight FTE statewide reductions in the decision packages. He informed the committee that 33 of the vacancies have been filled, but that there are still eight vacancies. He stated that the eight vacancies are not only due to lack of funding, but also to mismatches in the applicants.

Mrs. Kauska stated that there were layoffs and one unexcepted firing that happened in the past year.

{Tape: 3; Side: B; Approx. Time Counter: 18 - 30}

CHAIRMAN SINRUD stated that executive action would take place on 2/07/05.

The hearing on the Department of Revenue closed at 11:20 A.M.

ADJOURNMENT

Adjournment: 11:20 A.M.

REP. JOHN SINRUD, Chairman

JAMIE MICKELSON, Secretary

JS/jm

Additional Exhibits:

EXHIBIT ([jgh28aad0.TIF](#))